

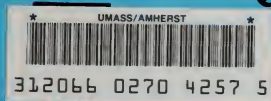
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INDEPENDENT STATE AUDITOR'S REPORT  
ON CERTAIN ACTIVITIES OF THE  
HAMPSHIRE COUNTY REGIONAL HOUSING AUTHORITY  
JANUARY 1, 1998 TO SEPTEMBER 30, 1999

OFFICIAL AUDIT REPORT

JUL 12 2000

ISSUED BY THE  
Department of the State Auditor



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## AUDIT SCOPE, OBJECTIVES, AND METHODOLOGY

In accordance with Chapter 11, Section 12, of the Massachusetts General Laws, we have conducted an audit of certain activities of the Hampshire County Regional Housing Authority for the period January 1, 1998 to September 30, 1999. The objectives of our audit were to assess the adequacy of the Authority's management control system for measuring, reporting, and monitoring the effectiveness of its programs, and to assess compliance with laws, rules, and regulations applicable to each program.

Our audit was conducted in accordance with applicable generally accepted government auditing standards for performance audits and, accordingly, included such audit tests and procedures as we considered necessary.

To achieve our audit objectives, we reviewed the following:

- Tenant-selection procedures to verify that tenants were selected in accordance with Department of Housing and Community Development (DHCD) regulations.
- Vacancy records to determine whether the Authority adhered to DHCD's procedures for preparing and filling vacant housing units.
- Annual rent-determination procedures to verify that rents were calculated properly and in accordance with DHCD regulations.
- Accounts receivable procedures to ensure that rent collections were timely and that uncollectible tenants' accounts receivable balances were written off properly.
- Procedures for making payments to employees for salaries, travel, and fringe benefits to verify compliance with established rules and regulations.
- Site-inspection procedures and records to verify compliance with DHCD inspection requirements and that selected housing units were in safe and sanitary condition.
- Property and equipment inventory-control procedures to determine whether the Authority properly protected and maintained its resources in compliance with DHCD requirements.
- Contract procurement procedures and records to verify compliance with public bidding laws and DHCD requirements for awarding contracts.
- Cash-management and investment policies and practices to verify that the Authority maximized its interest income and that its deposits were fully insured.
- DHCD-approved operating budgets for the fiscal year in comparison with actual expenditures to determine whether line-item and total amounts by housing program were within budgetary limits and whether required fiscal reports were submitted to DHCD in a complete, accurate, and timely manner.



- Operating reserve accounts to verify that the Authority's reserves fell within DHCD's provisions for maximum and minimum allowable amounts and to verify the level of need for operating subsidies to determine whether the amount earned was consistent with the amount received from DHCD.
- Modernization awards to verify that contracts were awarded properly and that funds were received and disbursed in accordance with the contracts, and to determine the existence of any excess funds.
- The Authority's progress in addressing the issue noted in our prior audit report.

Based on our review, we have concluded that, except for the issues addressed in the Audit Results section of this report, during the 21-month period ended September 30, 1999, the Authority maintained adequate management controls and complied with applicable laws, rules, and regulations for the areas tested.





## AUDIT RESULTS

1. Status of Prior Audit Results – Unresolved

Our prior audit report of the Hampshire County Regional Housing Authority (HCRHA) disclosed that the Authority had made satisfactory progress in addressing the issue of reducing vacancies and limiting unnecessary losses due to unit turnover under normal operating conditions, but that the Authority needed the Department of Housing and Community Development's (DHCD) assistance to finance lead paint abatement at the Authority's Program 705 family units. The former Executive Director stated that she was waiting for DHCD to issue a Contract for Financial Assistance (CFA) for HCRHA to delead four units in the 705 Program and the transfer of two units to another governmental agency, and also stated that DHCD had been responsive in trying to address the Authority's concerns. However, our follow-up review for the 21-month period ended September 30, 1999 disclosed that the Authority's long-standing problem of prolonged unit vacancies had worsened. In fact, the amount of time that those units were vacant in excess of DHCD's guidelines increased from 501 days to 2,761 days. As a result, the HCRHA lost the opportunity to earn approximately \$15,084 in potential rental income and more importantly precluded needy families from receiving shelter by participating in this low income program. Specifically, we found that the Authority could not fill the six units in the 705 Program due to continued hazardous lead paint problems in four of the units and structural problems in the remaining two units. Moreover, our review revealed that the Authority needed financial assistance from DHCD to adequately finance the deleading of the Authority's four Program 705 Low Income Family units, and was seeking approval to transfer title of two units to the town of Cummington.

State law requires that any rental unit must be lead-free if there are children under the age of seven in the family. The Authority's Managing Director stated the numerous delays and shortfalls in funding by DHCD have hampered the rehabilitation and lead abatement of these units. DHCD initially awarded the first contract for deleading on January 1, 1996 for \$65,530. All construction bids that came in were in excess of that figure and DHCD would not accept them. On March 22, 1999, more than three years after



originally funding the program, DHCD increased the amount of funding for the contract work to \$122,200, but all construction bids that were submitted shortly thereafter were again in excess of the allocated funding for the program. DHCD has recently notified the HCRHA to again seek new bids. The Managing Director further stated that DHCD has once again raised the contract, this time to \$150,000, and extended the completion date for this deleading from March 31, 1999 to March 31, 2000.

Immediate resolution of these longstanding issues requires the efforts of both the Authority and DHCD. Prolonging decisions on these units is neither efficient use of taxpayers' resources nor effective managing of crucially needed family housing units.

Recommendation: The Authority should seek new bids on the deleading work on the four family housing units and, at the same time, work with DHCD to either accept the lowest responsible bid, when submitted, or once again, increase the CFA to coincide with the bids submitted. In addition, the HCRHA and DHCD should either allow the transfer of the two Cummington 705 units to the town of Cummington or offer them for private sale, or otherwise provide the necessary funding to modernize the units for family housing.

Auditee's Response:

HCRHA is unable to fill the 6 vacant units; the units are in substandard condition and cannot be leased. The Authority does not have the funds to rehabilitate these units. The units have varying problems including lead paint, roof damage, and septic and heating systems' failures. The Housing Authority has voted to convey 2 units in Cummington to the Town of Cummington. DHCD has approved of the disposition; the matter is currently in consideration in the House Ways and Means Committee. The Authority has signed an extension to its CFA (Contract for Financial Assistance) with DHCD for the de-leading 2 units in Huntington (E. Main St.). The Authority has advertised for bids to rehabilitate these units twice in the past; however, the bids were rejected by DHCD because of the high capital outlay. The Authority is in the process of seeking contract services to revise plans and specifications and to re-bid the project. The other two units in Huntington (Pine St.) needs extensive rehabilitation before they can be leased.

In addition, the Authority indicated that it is pursuing alternatives through initiatives available from a local non-profit development agency.



## 2. Inadequate Accounting and Administrative Controls

Our review of the Authority's general administrative procedures for the period January 1, 1998 to September 30, 1999 revealed certain administrative weaknesses. Specifically, we found that the Authority had not: (a) maintained adequate records that properly documented maintenance staff work hours and supervisory approval of weekly attendance records; (b) maximized the interest received on investments and money deposited in the bank; and (c) resolved all of the deficiencies noted in DHCD's 1998 Budget, Occupancy, Administration, Standards of Health and Safety, and Tenant Services (BOAST) Management Review Report. As a result, the Authority has limited assurance of the accuracy of its payroll records and the appropriateness of certain administrative controls. The Authority's board subsequently identified the need to correct and address these weaknesses and general administrative practices. The board entered into a management agreement on August 18, 1998 (commencing September 1, 1998 for one year, with a renewable option for two more years) with the Amherst Housing Authority to provide administrative oversight and assistance by means of providing personnel to serve the function of the Executive Director and provide the overall administration necessary to manage the HCRHA's programs. The Amherst Housing Authority's Executive Director has been designated as the management administrator for the HCRHA to perform duties outlined in the agreement. Specifically, our review noted the following:

a. Payroll Record Deficiencies: The Authority has historically operated with part-time staff to accomplish its administrative workloads. During our review we noted weaknesses in the payroll documentation and approval processes that needed to be addressed. Our audit revealed that the Authority's maintenance worker in Huntington was not timely in preparing and submitting weekly attendance records that identify the time and days worked during the weekly payroll period. Our payroll tests indicated that the Authority also was not authorizing or providing oversight to indicate approval of the Program Manager's attendance records. We also noted deficiencies in the maintenance of employee attendance calendars used to accrue earned benefits (vacation, sick time, and personal time). Without approved and complete attendance and time records, the Authority cannot be assured that employees'



time is accurate and that they are entitled to pay earned or leave time taken. DHCD's Accounting Manual, Section 15 (I), requires formal attendance reports to provide information for the preparation of payroll to maintain adequate control of annual leave, overtime, holiday work, personal leave, and paid leave for each employee. Additionally, this section states, in part:

If the personnel policy of the Local Authority provides for the accrual of annual and sick leave for employees, a record of all leave earned and taken must be maintained for each employee.

We noted that the Authority, through its management administration, has taken steps to improve oversight in this area. Specifically, the Authority has initiated procedures to ensure that time records are accurately completed, properly reviewed, and authorized. During the audit we noted that the Authority had begun to develop an accrual tracking form to accurately account for employees' time, attendance, and accrued leave.

**Recommendation:** The Authority should improve its payroll system and related practices by implementing and maintaining oversight controls in this area, including: (1) requiring that attendance records from all personnel be completed and submitted in a timely manner; (2) ensuring that employee time and attendance records are appropriately prepared, reviewed, and approved; and (3) adopting procedures to ensure that all time records, attendance records, and accrued benefits records adequately document and substantiate employees' work hours and leave time.

b. **Failure To Earn Maximum Interest Income:** Our review of the Authority's cash management and investment practices revealed that the Authority lost \$2,933 in potential interest income because it maintained its funds (i.e. payments for payroll and all other monthly bills) in a low-interest bearing bank account. Instead, the Authority should have invested its idle funds (those in excess of daily operating needs) in high-interest bearing accounts (e.g. Massachusetts Municipal Depository Trust (MMDT), certificates of deposit, or money market funds).

Our review of the Authority's regular business checking account during the 21-month period ending September 30, 1999 showed an average monthly balance of \$41,687 for 1998 and \$40,000 for 1999. Using the average investment balance available and the average MMDT prevailing interest rate at that





time, we calculated that the Authority could have generated approximately \$2,933 in additional interest income. This income would have improved the financial position of the Authority and lessened the need for subsidies to support general operations.

The Program Manager stated that this checking account had been in existence prior to her appointment and that this was the closest bank to the Cummington office (25 minutes away). The Executive Director stated that Amherst Housing Authority uses the same bank and receives a much higher interest rate. Our contact with bank representatives indicated that various options are available to the Authority that would improve the interest earning potential of the Authority's book accounts. Various cash management funds are available that can be used to streamline procedures and improve the existing conditions noted. Wire transfers, telephone transfer access, Internet access, and other means of monitoring and controlling financial activity must be explored, especially because of the location of the Authority's administrative offices.

Recommendation: The Authority should determine the average amount needed to pay monthly bills and transfer any excess funds from the regular business checking account to an MMDT investment account in order to receive maximum interest income on available funds. Further, the Program Manager should immediately contact the bank manager to discuss the possibility of getting a higher interest rate than the rate that the Authority is currently receiving.

c. Deficiencies Noted in DHCD's BOAST 1998 Report: DHCD's Budget, Occupancy, Administration, Standards of Health and Safety, and Tenant Services (BOAST) Report, dated July 29, 1998, found the Authority's systems to be deficient in the following areas: (1) reserves, (2) initial and continued occupancy, (3) vacant unit preparation and turnover, (4) policies, (5) management plan, (6) control systems, (7) routine and preventive maintenance, and (8) work order systems. Our follow-up review indicated that the Authority had either completed or began to implement corrective measures to address all of the deficiencies noted by DHCD above, with the exception of routine and preventive maintenance, which is in the final stages of completion.



DHCD's report indicated that the Authority needs to establish a simple preventive maintenance plan to address basic routine tasks at its elderly and family properties. DHCD's Property Maintenance Guide can be used as a guide in constructing such an outline. Although staff is part-time and limited by time constraints, it is important to identify and track routine maintenance tasks by function and season. The outline should be submitted to DHCD upon completion and within a reasonable timeframe.

The Executive Director stated that the Authority has a preventive maintenance plan in progress and near completion designed to cover emergencies, vacancy refurbishment, preventive maintenance, programmed maintenance, and requested maintenance.

Recommendation: Although the Authority has addressed most of the deficiencies noted in DHCD's BOAST report it still needs to complete the Routine and Preventive Maintenance Plan and submit it to DHCD for final approval.

Auditee's Response:

The Authority has addressed the issues contained in this audit result. All employees currently complete time sheets; they are approved with supervisory signature. The Authority has placed all excess funds in a money market fund with Florence Savings Bank earning 4.5% interest. All deficiencies noted in DHCD's Boast report have been addressed.





